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Mr. Christopher F. Koller
Health Insurance Commissioner
Office of the Health Insurance Commissioner
1511 Pontiac Avenue, Building 69, First Floor
Cranston, Rhode Island 02920

Dear Commissioner Koller:

I am writing to provide additional information regarding the rate filings we submitted to your Office for small employer and large employer rates effective January 1, 2011. Our rate filings attempt to balance the ongoing economic challenges facing Rhode Island with the appropriate financial response to the medical and cost trends affecting our pricing as well as our experience in the Rhode Island market (including increasing health care costs and utilization trends, coupled with the impacts of the reduced rates we have been operating under this year as well as the temporary withdrawal of our rate filing in 2009).

First let me provide some insight on the cost drivers that underlie our request for rate increases. The largest driver of medical cost, approximately 13.5 percent for small groups and 14.8 percent for large groups, is outpatient hospital trend. We are also seeing inpatient hospital trends increase by approximately 11 percent for small group and 12.2 percent for large group. The majority of these increases continue to be driven by the price for services in our State's hospitals. This is in addition to the increased cost trends we are experiencing from all other providers. Pharmacy costs also continue to grow at a pace significantly higher than the rate of inflation. Our pharmacy trend for small employers is 10.5 percent and for large employers 11.4 percent. Similar to the hospital trends, price increases are the leading cause for the increase in pharmacy trends as well.

These state specific trends are backed up by national research confirming hospital and pharmacy expenses as the leading drivers of health care cost increases today. Government and private sector data and academic research - from agencies and institutions including the U.S. Department of Health and Human Services, the Centers for Medicare and Medicaid Services, the Congressional Budget Office, Dartmouth College, Emory University and the Center for Studying Health System Change, among others—demonstrate that increased spending in three areas (hospital care, physician services and prescription drugs) together account for about 75 percent of the annual increases in health care costs.

Accordingly, we believe that in addition to information provided by health plans, it is important that health care providers should be required to make public meaningful cost data. Providing this

data will allow for a comprehensive review of the factors driving the increase in health care premiums. Simply focusing on premiums without tackling the underlying health care costs of the insured population will not make health care more affordable for Rhode Island's citizens.

I also want to highlight what we, as a company, are doing to lower the costs of care and operate as efficiently as possible to keep rates as low as possible. Over the past several years, we have implemented innovative initiatives designed to help contain rising health care costs. For example, our Premium Designation program provides our members with valuable information when selecting their physician helping them make more informed decisions that can lead to better health outcomes while simultaneously lowering their cost of care. Similarly, our physician reimbursement strategy focuses on compensating those physicians who display improved quality and efficiency in providing care to our members. Our involvement in the Patient Centered Medical Home pilot supports primary care physicians and the key role they play in both quality of care and cost containment within the system.

In conjunction with partnering hospitals, UnitedHealthcare is working to reduce the length of stay and cost of hospitalizations for our members. We employ nurses who work in, and with, most hospitals to help ensure that our members receive appropriate and timely levels of care both in the facility and as they return home. We have both on-site and telephonic nurses who collaborate with the patient, the patient's physician and hospital staff to develop discharge plans for all patients. For patients who have a higher likelihood of complications, our nurses refer members to the UnitedHealthcare Transitional Case Management Program to help ensure that they can remain at home and do not need to return to the hospital after discharge. Given the level of hospital readmission rates in Rhode Island, this is an important quality of care issue that can lead to better patient outcomes and reduce unnecessary costs of medical care.

We also continue to have discussions with health care facilities around innovative payment programs to address issues of improved quality and to lower the cost of care provided. Negotiations with Rhode Island's 13 hospitals are critical to helping to reduce cost increases while assuring appropriate quality care for our members. We continue to see hospitals request reimbursement increases well above the rate of medical inflation and continue to negotiate with the hospitals to achieve reimbursement rate increases in single digits. However, we have long-term agreements with hospitals that cannot simply be unilaterally opened. In addition, due to the potential impact of State budget cuts and the lack of adequate reimbursement from government programs it may be in our best interest not to open these contracts, as hospitals will look to increase their rates to offset the other funding shortfalls.

We must balance the support of our hospitals' viability with products that are affordable for our customers and their employees. Added into the equation are the escalation of costs attributable to physicians, radiology, medical device manufacturers and pharmaceuticals.

In filing premium rates with your Office, all of these factors are considered and weighed. We believe that our submission accurately reflects the expected medical trends and takes into consideration the cost containment initiatives described above.